

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6819

BILL NUMBER: SB 354

NOTE PREPARED: Dec 29, 2009

BILL AMENDED:

SUBJECT: Tax-free Art Districts.

FIRST AUTHOR: Sen. Simpson

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: *Sales Tax Exemption:* This bill exempts from the Gross Retail and Use taxes the sale of original and creative works of art in an arts and cultural district. It provides that an arts and cultural district must be established by a local economic development commission and be certified by the Indiana Arts Commission.

Income Tax Exemption: This bill also exempts from state and local Adjusted Gross Income tax the income of a writer, a composer, or an artist who has a business located in an arts and cultural district. It provides that the income tax exemption applies to that part of the individual's income that is derived from sources within the arts and cultural district and is attributable to original and creative works of art created within the district.

Effective Date: July 1, 2010; January 1, 2011.

Explanation of State Expenditures: *Department of State Revenue (DOR):* This bill could increase the administrative costs of the DOR. The DOR will have to amend the Sales and Income Tax forms, as well as update computer software. It is estimated that the provisions of this bill could be implemented within the existing level of resources available to the DOR.

Indiana Arts Commission: This bill could increase the administrative expenditures of the Indiana Arts Commission. The bill requires that an arts and entertainment district established by a local economic development commission must be certified by the Indiana Arts Commission. The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: *Impact on Sales Tax Revenue:* This bill would decrease Sales Tax revenues

from the sale of art. The impact is indeterminable and will depend on the volume of art sales in a district. The bill provides that transactions involving an original and creative work of art are exempt from sales tax if the transaction occurs in an arts and cultural district. The bill also provides that an individual that purchases an original and creative work must present an exemption certificate to the retail merchant or pay the sales tax.

Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Impact on Income Tax Revenue: This bill would decrease revenue collected from the Adjusted Gross Income (AGI) Tax on individuals. The impact is indeterminable and would ultimately depend on the number of individuals eligible and the dollar amount of exemptions claimed. The bill provides an income tax exemption for individuals designated by the local economic development commission. The amount of the exemption is based on the portion of the individual's AGI earned in the district from creating original and creative works of art. All revenue from the AGI Tax on individuals is deposited in the state General Fund.

Explanation of Local Expenditures: Local expenditures could increase to the extent that the bill provides that an arts and cultural district must be established by the local economic development commission.

Explanation of Local Revenues: Because the tax exemption would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a minimal decrease in revenue from these taxes. Local revenues will be impacted to the extent that a local unit receives funds from the Public Mass Transportation Fund, the Commuter Rail Service Fund, or the Industrial Rail Service Fund.

State Agencies Affected: DOR.

Local Agencies Affected: Counties with local option income taxes.

Information Sources:

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